

D78Y01
Maryland Health Benefit Exchange

Operating Budget Data

(\$ in Thousands)

	<u>FY 13</u> <u>Actual</u>	<u>FY 14</u> <u>Working</u>	<u>FY 15</u> <u>Allowance</u>	<u>FY 14-15</u> <u>Change</u>	<u>% Change</u> <u>Prior Year</u>
General Fund	\$8,010	\$14,141	\$15,514	\$1,373	9.7%
Contingent & Back of Bill Reductions	0	0	0	0	
Adjusted General Fund	\$8,010	\$14,141	\$15,514	\$1,373	9.7%
Special Fund	11	0	13,000	13,000	
Contingent & Back of Bill Reductions	0	0	-35	-35	
Adjusted Special Fund	\$11	\$0	\$12,965	\$12,965	
Federal Fund	72,960	90,390	43,514	-46,876	-51.9%
Contingent & Back of Bill Reductions	0	0	-35	-35	
Adjusted Federal Fund	\$72,960	\$90,390	\$43,479	-\$46,911	-51.9%
Adjusted Grand Total	\$80,981	\$104,531	\$71,957	-\$32,573	-31.2%

- Fiscal 2014 deficiency appropriations total almost \$33.5 million. Specific details on what the funding will be used for has yet to be determined as the Administration has yet to announce a strategy moving forward with regard to the Maryland Health Benefit Exchange (MHBE) Eligibility System (HIX). However, the additional funding will certainly supplement existing funding for the call center, project oversight, as well as remediation/replacement of the HIX.
- The fiscal 2015 budget for MHBE, almost \$72.0 million, is \$32.6 million (31.2%) lower than the fiscal 2014 working appropriation, and \$66.0 million (48.0%) lower than fiscal 2014 when the deficiency appropriation is taken into account. In theory, the budget represents a transition from administrative and system development into a more operational status. In practice, system development could continue well into fiscal 2015. It is unclear the extent to which the current allowance will adequately support that development.

Note: Numbers may not sum to total due to rounding.

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Personnel Data

	<u>FY 13 Actual</u>	<u>FY 14 Working</u>	<u>FY 15 Allowance</u>	<u>FY 14-15 Change</u>
Regular Positions	62.00	72.00	72.00	0.00
Contractual FTEs	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Personnel	62.00	72.00	72.00	0.00

Vacancy Data: Regular Positions

Turnover and Necessary Vacancies, Excluding New Positions	7.12	9.89%
Positions and Percentage Vacant as of 12/31/13	28.00	38.89%

- Since the fiscal 2014 budget was passed, 2 positions were added to MHBE as a result of transfers from the Maryland Health Insurance Plan bringing the regular personnel complement to 72 positions. However, vacancy rates remain high.
- There are no changes to the number of authorized positions for fiscal 2015.

Analysis in Brief

Major Trends

Initial Enrollment and Other Data: The well-documented issues with the MHBE information technology (IT) systems resulted in very low enrollment in qualified health plans (QHP) in the first few weeks. Although significant IT issues remain, QHP enrollment and other measures significantly increased beginning in November 2013.

Recommended Actions

	<u>Funds</u>
1. Add budget bill language restricting funds pending the submission of the first of various reports.	
2. Reduce federal grant funding that can be back-filled by existing grant funds made available by not making awards under the Connector Performance Incentive Program.	\$ 1,000,000
Total Reductions to Fiscal 2014 Deficiency Appropriation	\$ 1,000,000
Total Reductions to Allowance	

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Operating Budget Analysis

Program Description

The Maryland Health Benefit Exchange (MHBE) was created during the 2011 session in response to the federal Patient Protection and Affordable Care Act of 2010 (ACA). MHBE is intended to provide a marketplace for individuals and small businesses to purchase affordable health coverage.

Performance Analysis: Managing for Results

1. Initial Enrollment and Other Data

The well-documented difficulties in the roll-out of the MHBE Eligibility System (HIX) clearly hampered the ability of MHBE to translate apparent interest in the product being offered through MHBE (as demonstrated by over 750,000 website visits by over 400,000 unique visitors in the first six weeks of MHBE's formal opening) into actual enrollment. As shown in **Exhibit 1** for example, the number of individuals determined as eligible for enrollment in a qualified health plan (QHP) in the first six weeks was 4,262, with 1,763 actually becoming enrolled.

However, as is also shown in the exhibit, there was a fairly significant increase in individuals applying for coverage, completing applications, and enrolling in QHPs in subsequent weeks. At the time of writing, 31,112 individuals were enrolled as of February 14, 2014. It should be noted that in the fiscal 2014 MHBE analysis the estimated initial fiscal 2014 enrollment for the 138 to 400% federal poverty level (FPL) population eligible for some amount of federal subsidy support was expected to be 105,000, with an additional 42,500 enrolling through the Small Business Health Options Program (SHOP) exchange and individual exchange over 400% FPL (*i.e.*, without a federal subsidy) for a total QHP enrollment of 147,500. This enrollment estimate was based on data developed and published by the University of Maryland Baltimore County's Hilltop Institute. According to Hilltop and DHMH, this number apparently overstated anticipated enrollment in fiscal 2014.

Interestingly, at least through January 25, 2014, the number of individuals found to be eligible for Medicaid or the Maryland Children's Health Program (MCHP) is twice that of individuals eligible for QHPs.

Exhibit 1
Maryland Health Benefit Exchange
Various Data

	Oct. 1 through <u>Nov. 9</u>	Nov. 10 through <u>Nov. 30</u>	Nov. 30 through <u>Dec. 28</u>	Dec. 29 through <u>Jan. 25</u>	<u>Total</u>
Individuals applying for coverage	11,966	8,795	45,401	43,557	109,719
Completed applications (electronic and paper)	13,420	9,458	35,544	39,397	97,819
Individuals eligible for QHPs	4,262	3,203	15,632	12,703	35,800
Individual enrolled in QHPs	1,763	1,995	14,499	8,575	26,832
Individuals Medicaid/MCHP eligible	7,704	5,592	29,769	30,854	73,919

MCHP: Maryland Children’s Health Program

QHP: qualified health plan

Note: Data for individuals applying for coverage is from electronic applications only.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

MHBE still has no formal Managing for Results (MFR) goal submission included in the fiscal 2015 budget books. MHBE has developed performance measures around access, affordability, consumer satisfaction, stability, and health equity. However, none have yet been included in the MFR processes.

Fiscal 2014 Actions

Proposed Deficiency

There are two fiscal 2014 deficiency appropriations for MHBE totaling \$33,495,800:

- \$4,132,276 in operations for additional advertising and outreach (\$2,066,138 in each of general funds and federal funds). Of this amount, \$1,924,802 is slated for advertising and outreach, with \$2,207,474 for training (including training of navigators, assisters, and call center workers).

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- \$29,363,524 for what is characterized information technology (IT) contracts. As will be discussed further in this analysis, at this point no final strategy has been adopted for how MHBE intends to move forward with regard to the future of the HIX. Thus, there is no certainty about exactly how this deficiency appropriation will be spent. What is likely is that this funding will support a significant increase in funding for call center operations as the State tries to maximize enrollment through March 31, 2014, when the first open enrollment period ends (this is really operational, not IT development, spending); a new contract awarded to Optum, a major consulting firm, for both call center and IT support; and an as yet to be determined strategy to remediate/replace the HIX.

Other Fiscal 2014 Actions

The Governor's fiscal 2015 budget plan includes a planned reversion of \$1,660,000 in general funds in fiscal 2013. As noted in **Appendix 2**, these funds were improperly encumbered in fiscal 2013. All of the funding relates to navigator support.

Proposed Budget

As shown in **Exhibit 2**, the fiscal 2015 budget for MHBE is \$32.6 million below the fiscal 2014 working appropriation, 31.2%. The drop is even greater (\$66.0 million, 48.0%) when the fiscal 2014 deficiency appropriation is taken into consideration.

Personnel Expenditures

As detailed in Exhibit 2, fiscal 2015 personnel costs at MHBE increase by \$90,000 over fiscal 2014. Significant increases include \$448,000 in regular salaries that includes the cost of the fiscal 2015 increment effective July 1, 2014; \$173,000 to annualize the cost of the fiscal 2014 cost-of-living adjustment (COLA) (3% effective January 1, 2014) and the fiscal 2014 increment (effective April 1, 2014); and \$120,000 in increased retirement contributions (even after taking into consideration a \$46,532 contingent reduction related to retirement reinvestment savings). These increases are partially offset by reductions in employee and retiree health insurance costs (\$79,000 including \$24,038 in back of the bill reductions); \$162,000 in miscellaneous adjustments; and \$427,000 in increased turnover.

It should be noted that as of December 31, 2013, MHBE had 28 regular position vacancies, a 39% vacancy rate. MHBE has yet to fill its complement of employees. It is unclear if the current authorized complement of 72 employees represents what MHBE needs to direct operations. However, at this point, given the fact that MHBE is still in its relative infancy as an organization, the Department of Legislative Services (DLS) does not recommend any specific position reductions.

Exhibit 2
Proposed Budget
Maryland Health Benefit Exchange
(\$ in Thousands)

How Much It Grows:	General Fund	Special Fund	Federal Fund	Total
2014 Working Appropriation	\$14,141	\$0	\$90,390	\$104,531
2015 Allowance	<u>15,514</u>	<u>12,965</u>	<u>43,479</u>	<u>71,957</u>
Amount Change	\$1,373	\$12,965	-\$46,911	-\$32,573
Percent Change	9.7%		-51.9%	-31.2%
 Where It Goes:				
Personnel Expenses				\$90
Regular salaries including the fiscal 2015 increment effective July 1, 2014.....				\$448
Annualization of fiscal 2014 cost-of-living adjustment and increments.....				173
Retirement contributions.....				120
Other fringe benefit adjustments.....				17
Employee and retiree health insurance				-79
Miscellaneous adjustments				-162
Turnover adjustments.....				-427
Nonpersonnel Operations				-\$17,760
Various nonpersonnel operations (see Exhibit 6 and text for additional discussion)				-17,760
Information Technology Contracts				-\$14,903
Various information technology contracts (see Exhibit 7 and text for additional discussion).....				-14,903
Total				-\$32,573

Note: The fiscal 2014 working appropriation reflects negative deficiencies and contingent reductions. The fiscal 2015 allowance reflects back of the bill and contingent reductions. Numbers may not sum to total due to rounding.

The Fiscal 2015 Budget – A Transition to a Different Phase of Operation?

As introduced, the fiscal 2015 budget would appear to represent a transition from prior years in two related ways:

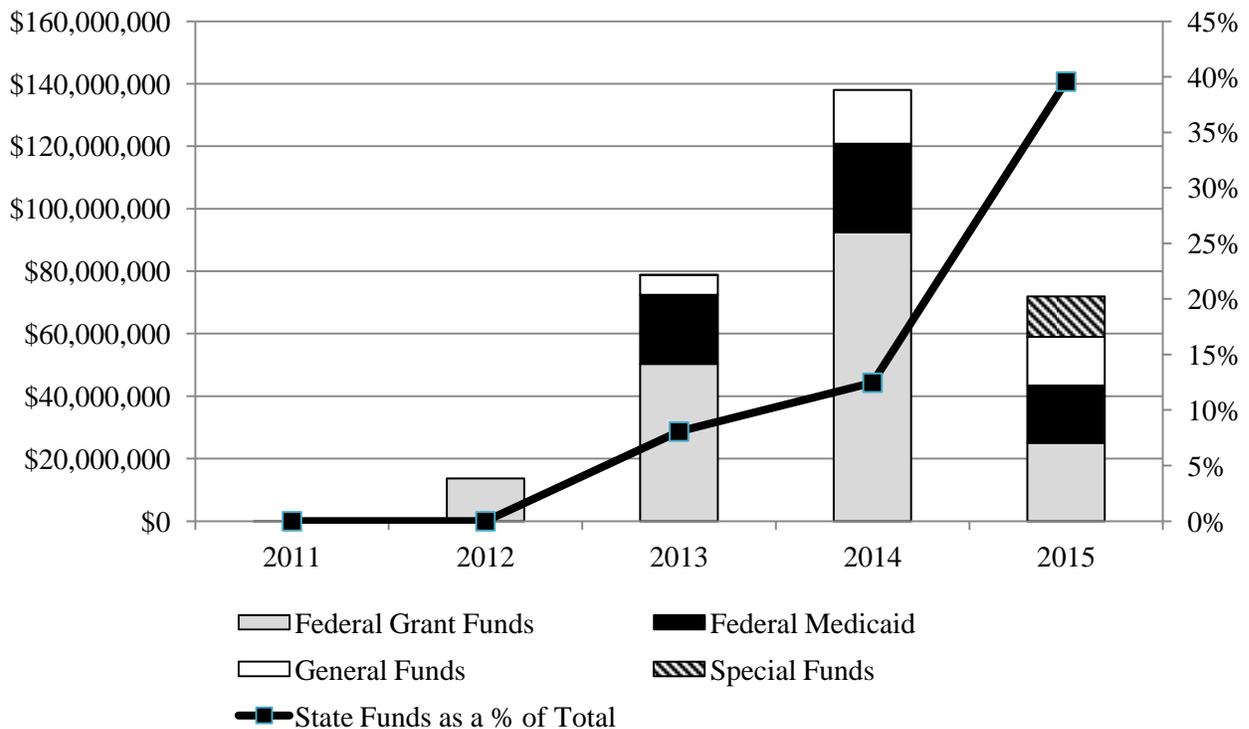
- a transition from a reliance on federal grant funding that has supported the initial development phase to a different funding structure as federal grant funding is not supposed to be available after January 1, 2015; and

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- a transition from an organization that has been expending funds building an infrastructure (primarily IT) ahead of the October 1, 2013 open enrollment period to the funding of more traditional ongoing operations (which the federal government intended to be self-reliant from a funding perspective).

The transition to a financing model that is not reliant on federal grants after December 31, 2014, is reflected in **Exhibit 3**. As illustrated in Exhibit 3, funding for fiscal 2015 represents a dramatic shift from prior years with the State share of total funding (general funds and special funds derived from the premium tax) comprising 40% of total funds in fiscal 2015 (\$28.5 million) compared to 12% in fiscal 2014. Federal grants, which fully funded MHBE in fiscal 2011 and 2012, and represented two-thirds of total funding in fiscal 2013 and 2014, shrink to 35% of the total budget in fiscal 2015 (\$25.1 million).

Exhibit 3
Maryland Health Benefit Exchange
Funding Sources
Fiscal 2011-2015



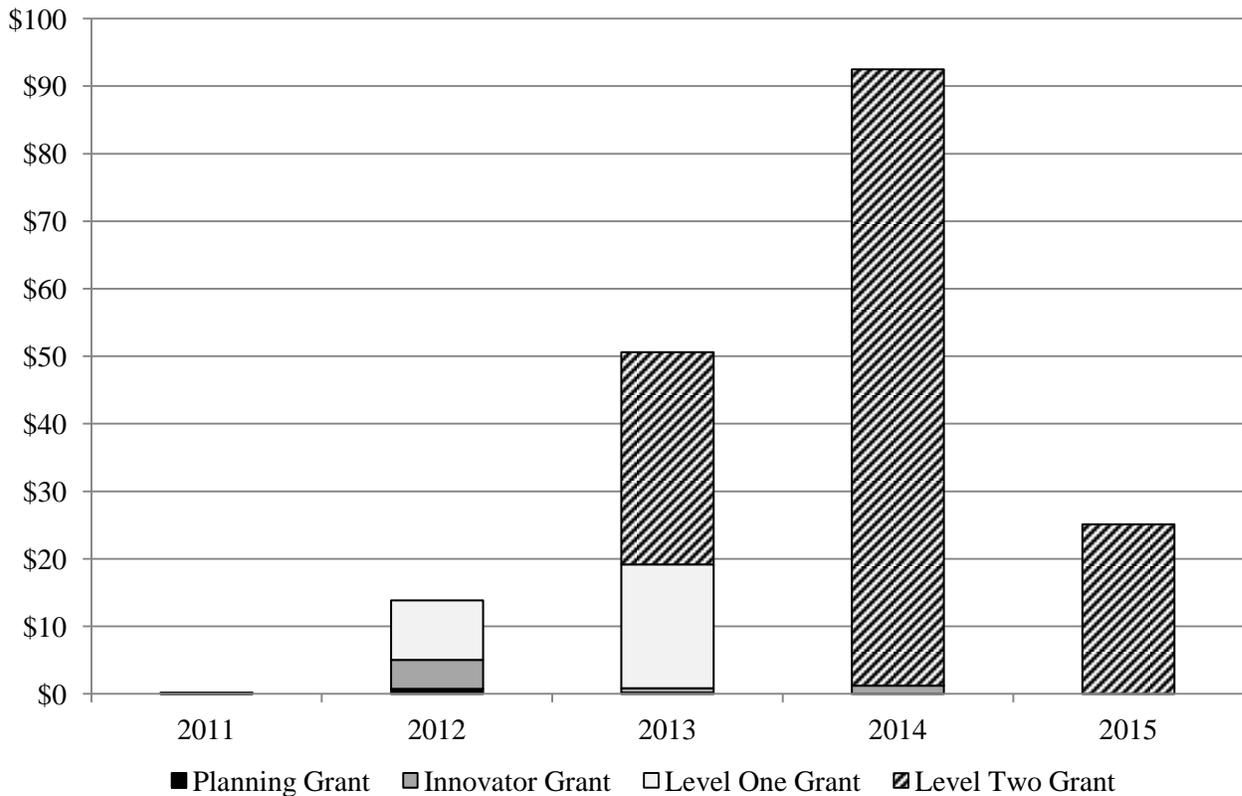
Note: Fiscal 2013 and 2014 data adjusted for planned reversions and deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

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To date, the State has received \$182.2 million in federal grant funds. Planned spending of these funds by fiscal year is detailed in **Exhibit 4**. As currently authorized/proposed, total federal grant funding appears to be \$94,000 above the amount actually authorized. However, if an issue with a federal 2013 encumbrance is corrected, DLS believes that there is actually a small fund balance of \$258,000. In any event, MHBE correctly notes that some of the currently planned uses for federal grants will likely not happen. Furthermore, other accounting changes that involve claiming Medicaid funds versus charging the federal grant could provide additional available grant funding. It is also likely that the State will seek additional federal Level 2 grant funding as it has already done on two different occasions in August 2013.

Exhibit 4
Maryland Health Benefit Exchange
Use of Federal Grant Funding
Fiscal 2011-2015



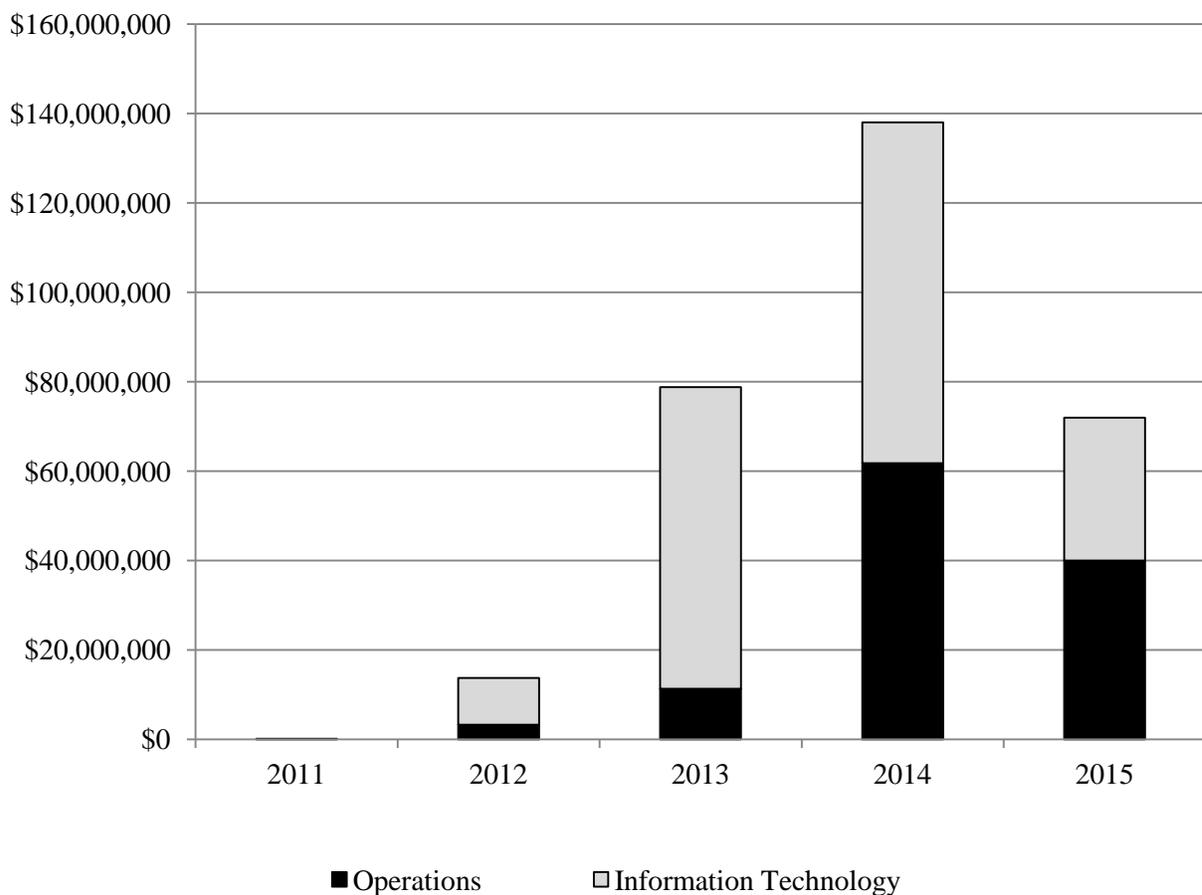
Note: 2014 data adjusted for deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

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As presented in the budget, the transition from infrastructure development to operations is illustrated in **Exhibit 5**. After three years where IT contract spending has dominated the total budget, in fiscal 2015, planned operational spending, at an estimated \$40 million, represents 56% of total spending. Additionally, much of the planned IT contract spending is supposed to represent ongoing operations and maintenance (including the production hosting facility contract).

Exhibit 5
Maryland Health Benefit Exchange
Operations and Information Technology Contracting
Fiscal 2011-2015



Note: Fiscal 2013 and 2014 data adjusted for planned reversions and deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

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As shown in **Exhibit 6**, spending on MHBE operations has expanded significantly in recent years. Planned expenditures in fiscal 2014 (including the fiscal 2014 deficiency) total \$61.8 million, with significant expenditures on the call center and related consumer assistance (predominantly training of local department of social services workers, navigators, assisters, and call center employees); navigators employed/contracted by regional connector agencies to conduct outreach and education, distribute information and facilitate selection, enrollment, renewal and disenrollment in qualified plans, facilitate eligibility determination for Medicaid, the MCHP, and premium subsidies; assisters who will fill a similar role to navigators; and advertising.

Exhibit 6
Maryland Health Benefit Exchange
Operations Expenditures
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Call Center and Consumer Assistance	\$0	\$0	\$5,726,395	\$15,048,416	\$10,585,414	\$31,360,225
Assister Grants	0	0	0	13,798,615	8,476,208	22,274,823
Navigator Grants	0	0	0	8,640,000	8,600,002	17,240,002
Personnel	169,077	593,382	2,010,521	6,807,132	6,896,838	16,476,950
Other	0	2,705,971	1,864,357	5,982,337	3,539,388	14,092,053
Advertising	0	0	1,703,210	7,376,685	1,885,071	10,964,966
Fiscal 2014 Deficiency	0	0	0	4,132,276	0	4,132,276
Total	\$169,077	\$3,299,353	\$11,304,483	\$61,785,461	\$39,982,921	\$116,541,295
<i>Fiscal 2014 to 2015 Change (Excluding Deficiency)</i>						<i>-\$17,670,264</i>

Note: Fiscal 2013 and 2014 data adjusted for planned reversions and deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

Funding for operations drops to \$40.0 million in fiscal 2015, primarily due to a decline in spending on the call center and consumer assistance, assister grants, and advertising. Navigator funding in fiscal 2015 is virtually even with fiscal 2014 at \$8.6 million. MHBE has not indicated how long the navigator funding will remain at this level. Interestingly, the amount of funding provided for advertising (\$1.9 million) is significantly below the level provided in fiscal 2014. Given the issues with the initial roll-out, it is hard to imagine that a significant effort concerning enrollment will not also be made in fiscal 2015.

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Funding on IT contracts is set to exceed \$76.2 million in fiscal 2014, as detailed in **Exhibit 7**. Most of this funding is currently planned to be spent under the contract with Noridian (additional detail on the contract is provided below). As currently outlined, spending is set to decline in fiscal 2015, with less funding allocated for activities by Noridian, no funding scheduled for legacy system interoperability, and less funding for IT project oversight and Independent Verification and Validation (IV&V).

Exhibit 7
Maryland Health Benefit Exchange
Information Technology Contract Expenditures
Fiscal 2011-2015

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Noridian	\$0	\$9,854,280	\$56,213,611	\$34,305,450	\$25,507,655	\$125,880,996
Deficiency	0	0	0	29,363,524	0	29,363,524
Legacy System Interoperability	0	0	4,270,168	5,160,528	0	9,430,696
State PMO	0	594,176	2,156,663	3,240,000	1,493,600	7,484,439
Other	0	0	624,767	1,921,644	4,773,220	7,319,631
Independent Verification and Validation	0	0	4,251,426	2,250,000	200,000	6,701,426
Total	\$0	\$10,448,456	\$67,516,635	\$76,241,146	\$31,974,475	\$186,180,712
<i>Fiscal 2014 to 2015 Change (Excluding Deficiency)</i>						<i>-\$14,903,147</i>

PMO: Program Management Office

Note: Fiscal 2014 data adjusted for deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

However, as will be discussed below, there is significant uncertainty about the way forward with IT spending that makes any definitive discussion of change in spending in this area particularly challenging.

HIX

From the outset, the development of HIX was a high risk undertaking:

- the project was developed under tight deadlines;

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- requirements for the project were constantly evolving, including a lack of timely guidance from the federal government;
- the level of system complexity was high based on the need for interoperability with to-be-developed federal databases and existing State systems; and
- Maryland chose to increase the risk by developing a single system for QHPs and Medicaid eligibility determination.

As has been also documented, subsequent to the project award, issues concerning the broken relationship between the contractor, Noridian, and its subcontractor, coordination with other State agencies, and project governance within MHBE all added to project risk.

Although a full review of the lessons learned in the development of HIX has not yet taken place, the limitations of the system have been well-documented. **Exhibit 8** provides an overview of those issues as well as other project details.

Ultimately, even having jettisoned significant functionality in order to meet the October 1, 2013 go-live date (for example, eliminating the ability to take initial premium payments through the HIX, being able to complete applications online in Spanish, and completing the SHOP exchange), HIX's performance at the go-live date was problematic.

While the decision to go-live even with limited functionality was generally supported by the independent consultants employed by MHBE, the risks identified by those consultants was high, including that few activities in the months leading up to the go-live date had gone smoothly; there was a lack of clarity concerning whether security features had been adequately tested or configured; there was a concern whether the federal Centers for Medicare and Medicaid Services (CMS) testing activities had been sufficiently rigorous; and there had been a lack of testing to simulate performance in a live environment. Indeed, the independent consultant's support of a go-live with minimum functionality highlighted the fact that much of the supposed system and application functionality had not been appropriately tested in a live environment, other areas had had minimal or no testing, and a process for ensuring the reliability and integrity of the data collected by MHBE needed to be developed.

HIX – Moving Forward

At this point, the State is persevering with the HIX through the current QHP open enrollment period and is proposing to add significant additional resources through the call center, for example, to ensure maximum enrollment. Although there have been calls for Maryland to use the federal marketplace as an alternative, that marketplace has had its own issues and indeed was replacing vendors mid-stream adding to the uncertainty about the use of that option.

Exhibit 8
Maryland Health Benefit Exchange Eligibility System

Project Description:	Replace current eligibility systems for Medicaid and other social service programs with a single system that serves Medicaid and social service programs, as well as the needs of the Maryland Health Benefit Exchange (MHBE).		
Project Business Goals:	<p>Provide seamless eligibility determination services to both Medicaid and non-Medicaid-eligible Marylanders as part of the “Individuals” and “Small Business” exchanges under MHBE. The federal government has conditionally approved MHBE ahead of coverage expansion that is scheduled for January 1, 2014. An operational eligibility system will be the cornerstone of MHBE. If the system is not available, MHBE will be operated by the federal government.</p> <p>The system is envisaged to be implemented in multiple phases:</p> <ul style="list-style-type: none"> ● Phase 1a: Core exchange functions and Modified Adjustable Gross Income (MAGI) Medicaid determinations including tools to compare qualified health plans (QHP), enroll in an insurance product, be evaluated for all applicable State health subsidy programs, and determine product costs; ● Phase 1b: Maintenance, hosting, operations, and other selected services; ● Phase 2: Incorporating non-MAGI eligibility determinations into the system, <i>e.g.</i>, seniors, people with disabilities, and individuals needing long-term care services; and ● Phase 3: Integrating the capacity to conduct eligibility determinations for other social services programs such as Supplemental Nutrition Assistance Program (food stamps) and Temporary Assistance for Needy Families. 		
Estimated Total Project Cost:	\$51.23 million. This represents the development costs for Phase 1 only, excluding the Small Business Health Options Program (SHOP) exchange. Operations and maintenance costs are in addition to this amount.	New/Ongoing Project:	Ongoing.
Project Start Date:	December 2010.	Projected Completion Data:	The QHP and Medicaid enrollment portion of the project went live October 1, 2013. Significant remediation work/system replacement is required. Status of the SHOP portion of the project is unknown.

Schedule Status:	MHBE has not articulated a plan for remediation/replacement beyond the current QHP open enrollment period. Thus, schedule status remains unknown.
Cost Status:	Contract cost is fixed. However, total costs for the system will be significantly higher in terms of the additional project management and information technology (IT) support that has been provided since the go-live date and costs to remediate/replace the system based on poor performance. Additionally, the inability to perform Medicaid redeterminations through the MHBE Eligibility System (HIX) as scheduled results in significant additional costs incurred by Medicaid.
Scope Status:	n/a.
Project Management Oversight Status:	<p>Oversight is provided through a Program Management Office (PMO) contract. PMO is responsible for delivering general project management and quality assurance support for the exchange IT system. Independent Verification and Validation (IV&V) is also provided through a separate contract. Additional IT consulting and support funding has been proposed in a fiscal 2014 deficiency appropriation.</p> <p>Since December 2013, the Secretary of the Department of Information Technology has been in charge of IT oversight at MHBE. However, the project was not procured under the Major Information Technology Development Project governance model.</p>
Identifiable Issues:	<p>The following major issues have been identified with the system:</p> <ul style="list-style-type: none"> ● software issues, primarily with the IBM Curam software, which is the software used in determining eligibility and managing application records. Issues include missing functionality, software defects, discrepancies resulting from two different rules engines, lost applications, lack of required data fields, and an opaque database structure; ● system architectural flaws; and ● issues with the integration of different software products. <p>Taken together, these issues have resulted in issues with establishing accounts, errors in eligibility determination and application status, and errors in the transmission of enrollment data to insurance carriers.</p> <p>Similarly, there have been issues for Medicaid enrollment in terms of incorrect eligibility determinations, stuck cases, difficulties in shopping for managed care organizations, and communications with Maryland Medicaid Information System. As noted above, Medicaid redeterminations for existing Medicaid enrollees remain an unresolved and potentially costly problem.</p>

Ongoing Risks:	<ul style="list-style-type: none"> ● Plan for HIX Remediation/Replacement: MHBE is still developing a plan to proceed with the HIX remediation/replacement. ● Upcoming Deadlines: Any replacement/remediation solution will need to recognize the November 15, 2014 deadline for the next open enrollment period for QHPs and the current plan to begin redeterminations for existing Medicaid enrollees in July 2014. In order to avoid similar issues experienced in the initial roll-out, the State needs to identify and prepare for a viable back-up plan. ● Costs: Currently unknown. Delays in finding a solution for Medicaid redeterminations are potentially very costly. ● Project Management: Current budget plans see a scaling-back in project management oversight and IV&V assessments. Certainly, the level of IT support currently proposed for fiscal 2014 is significantly higher than planned in fiscal 2015. It is likely that additional support will be required in fiscal 2015. ● Subsequent Phases of HIX: The focus of the administration remains on Phase I. Subsequent phases will depend on the solutions chosen in upcoming months.
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Fiscal Year Funding (000)	Prior Years	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	Balance to Complete	Total
Personnel Services	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Professional and Outside Services	9,854.3	16,856.1	16,728.0	7,791.6	0.0	0.0	0.0	51,230.0
Other Expenditures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Funding	\$9,854.3	\$16,856.1	\$16,728.0	\$7,791.6	\$0.0	\$0.0	\$0.0	\$51,230.0

Note: Fiscal 2012 and 2013 data reflects actual invoices paid. Fiscal 2014 data reflects invoices received through December 31, 2013, although one invoice for \$511,128 had yet to be paid by December 31, 2013. The balance is assumed to be paid in fiscal 2015, although it could be paid earlier depending on when invoices are received by the State and paid.

Source: Department of Legislative Services; Maryland Health Benefit Exchange

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In terms of Medicaid enrollment, for income-based determinations, new enrollees are using the HIX and being determined under the new Modified Adjusted Gross Income (MAGI) methodology that was part of the federal Affordable Care Act that went into effect January 1, 2014. There have been numerous issues for Medicaid enrollees including incorrect eligibility determinations, stuck cases, difficulties in choosing managed care organizations, as well as with sending enrollment data to the Medicaid Management Information System (MMIS). Most of these issues have been attributed to issues with the Curam software.

However, the system is currently incapable of handling Medicaid redeterminations. The HIX is unable to convert income data from the existing Medicaid enrollment system (the Client Automated Resource and Eligibility System (CARES)) into the MAGI calculation needed to do redeterminations because of a variety of system architectural flaws. The CARES cannot do these redeterminations because it does not have the new MAGI rules.

Medicaid has proposed a six-month delay in eligibility redeterminations, and CMS has approved that delay. Although most redeterminations result in continued participation in Medicaid, some enrollees typically fall off the Medicaid rolls. Using data from the Department of Health and Mental Hygiene and the Department of Human Resources, DLS has estimated that the State cost of this six-month delay in redeterminations could be \$17.8 million in fiscal 2014 and an additional \$12.7 million in fiscal 2015 (a total State cost of \$30.5 million).

The Administration has acknowledged that a significant decision regarding the future of the HIX needs to be taken. Five options are on the table:

- remediating the current system. While the State has identified significant flaws in the system architecture as well as software, remediating the current system remains an option;
- developing a new system;
- adopting a technology successfully used in another State, *e.g.*, Connecticut;
- joining a multi-State consortium; and
- using the federal marketplace. This could involve using the back-end federal capability in terms of eligibility determinations but maintaining a Maryland front-end portal.

Of the five options outlined above, two (adopting a technology used in another State and developing multi-state consortium) do not appear to specifically address the issue of Medicaid enrollment and, in particular, the problem Maryland is confronting with Medicaid redeterminations. Options here include adapting the CARES or making existing enrollees re-apply for eligibility through the HIX or the federal exchange (which would require developing an ability to get that data into the MMIS) when they come up for redetermination, as has been proposed in Minnesota. However, the latter options would likely result in a significant drop in total enrollment.

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As of February 10, 2014, the Administration had not committed to a timeframe for a decision for how to move forward. However, the decision needs to be made soon for two reasons:

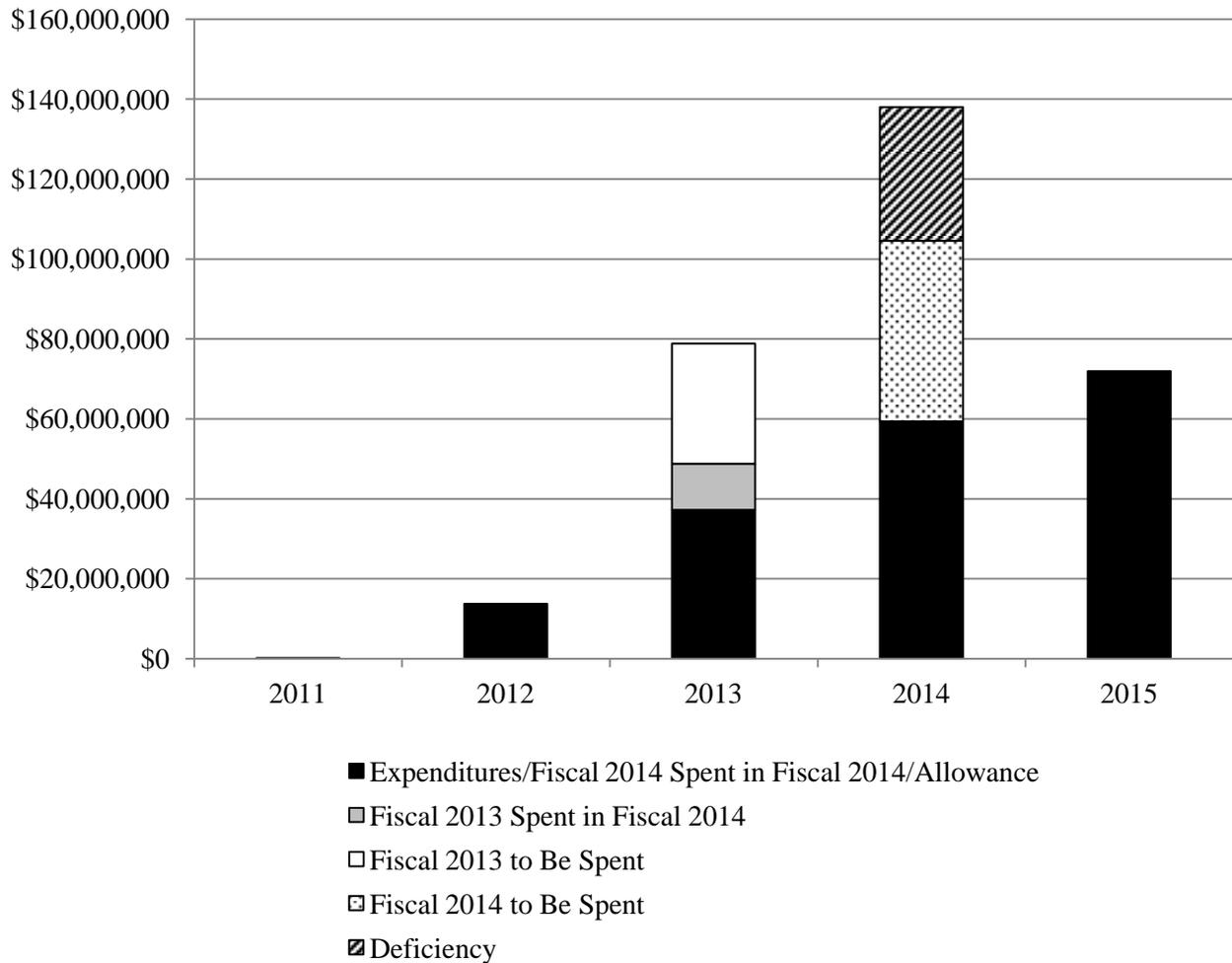
- there needs to be some solution in place for the next QHP open enrollment period beginning November 15, 2014; and
- the notification requirements for Medicaid redeterminations are generally 75 to 90 days ahead of the redetermination date (currently anticipated for July 2014).

By the same token, it is also important for any decision made by the Administration in terms of the HIX remediation/replacement to mitigate timeline pressures (which were a major contributor to the issues surrounding the original HIX development) and project scope (simultaneously developing an enrollment and eligibility system for QHPs and Medicaid). To do so may require the Administration to develop an interim solution while a long-term solution is being developed. For example, one of the solutions being discussed for QHPs is adapting the Connecticut system for Maryland. However, that process would likely take at least 9 to 12 months, *i.e.*, at best pushing up against the next open enrollment period. Not having a solid back-up plan could lead to a similar situation faced by the State in October 2013.

Current and Proposed Funding Available Moving Forward

Obviously, at this time, it is impossible to know if the funding currently appropriated and proposed for MHBE will be adequate to achieve what needs to be done in terms of the HIX. As shown in **Exhibit 9**, through December 31, 2013, MHBE still had only expended \$48.5 million of its \$78.8 million fiscal 2013 appropriation, and some of this funding might ultimately be spent differently from currently proposed. Indeed, as of December 31, 2013, as shown in **Exhibit 10**, of the total budget made available to MHBE, \$302.7 million, \$121.8 million had been expended and \$180.9 million remained unspent. In particular, approximately half of the funding available for IT contracts, \$93.0 million, had yet to be spent.

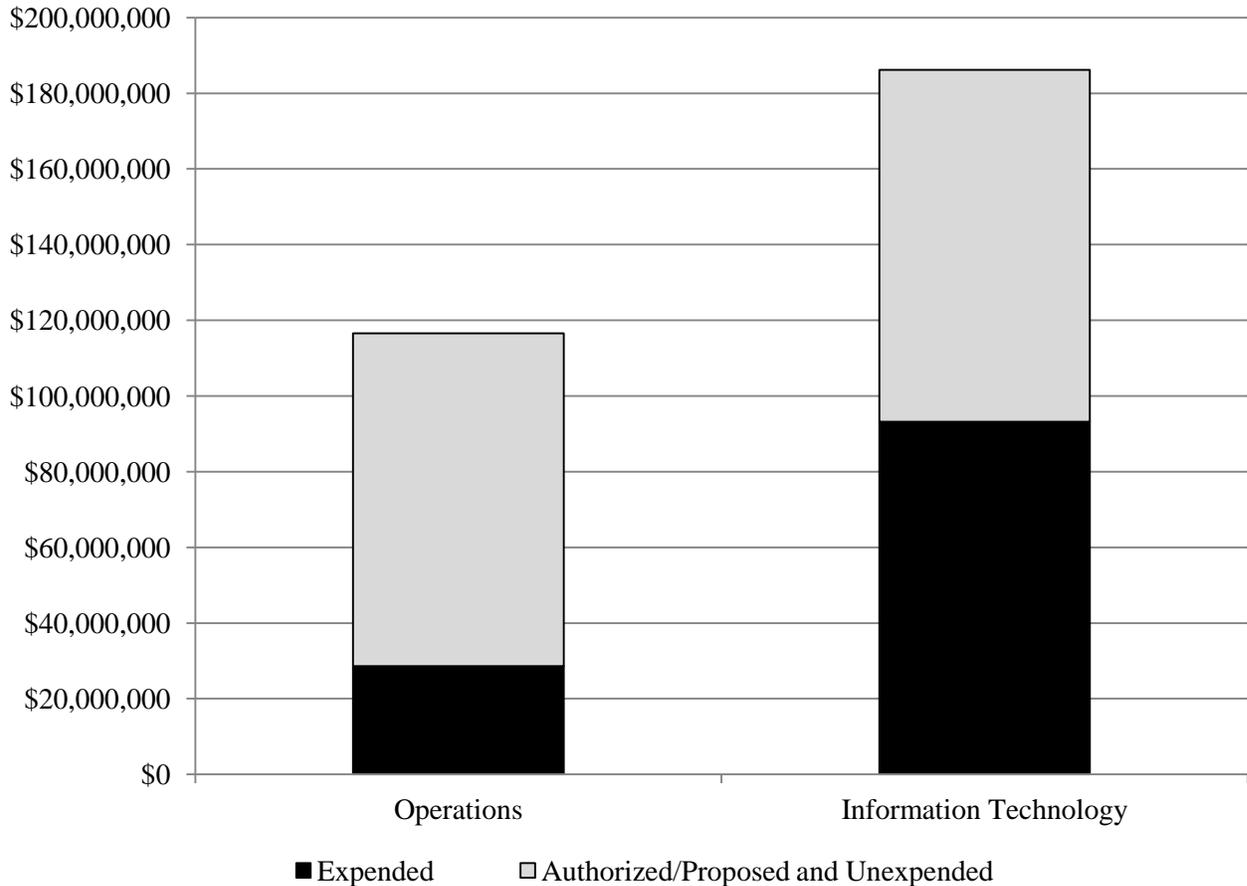
Exhibit 9
Maryland Health Benefit Exchange
Unexpended Funding as of December 31, 2013
Fiscal 2011-2015



Note: Fiscal 2013 and 2014 data adjusted for planned reversions and deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

Exhibit 10
Maryland Health Benefit Exchange
Various Funding Data



Note: Data adjusted for fiscal 2013 planned reversions and fiscal 2014 deficiency appropriations.

Source: Maryland Health Benefit Exchange; Department of Legislative Services

As was reported on February 24, 2014, MHBE decided to replace Noridian as its prime IT contractor with Optum/QSSI. At this point, it is unclear the extent to which the State will have to pay Noridian for work done and/or seek penalties for work already done. For example, although MHBE does not have a good baseline for the original proposed functionality of the HIX (and is currently doing that), it is clear that the functionality of the current system does not match that originally promised. At this time, MHBE's focus is on open enrollment, but it notes that an election to pursue remedies against Noridian remains an option.

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As shown in **Exhibit 11**, the State’s total contract with Noridian was for \$193.4 million for a variety of IT tasks including HIX development (including the SHOP), production hosting, and operations and maintenance. The budget plan, as currently proposed, covered \$125.9 million of this contract (future budgets would have been expected to cover a portion of production hosting and operations and maintenance costs). Depending on final invoice submissions and other potential considerations, the money in the budget for Noridian could be re-purposed.

Exhibit 11
Maryland Health Benefit Exchange
Noridian Contract
Various Data through December 31, 2013

<u>Project</u>	<u>Amount Invoiced</u>	<u>Amount Paid</u>	<u>Outstanding Invoice Amount</u>	<u>Amount Not Yet Invoiced</u>	<u>Total</u>
HIX	\$43,438,452	\$42,927,324	\$511,128	\$7,791,621	\$51,230,073
SHOP	10,015,923	8,141,004	1,874,919	9,062,107	19,078,030
Intermediate Data Storage	5,337,995	5,337,995	0	3,222,965	8,560,960
Production Hosting Facility	9,881,882	9,016,028	865,854	25,130,604	35,012,486
Operations and Maintenance	6,602,385	0	6,602,385	69,897,615	76,500,000
Other	2,721,723	0	2,721,723	327,307	3,049,030
Total	\$77,998,360	\$65,422,351	\$12,576,009	\$115,432,219	\$193,430,579
<i>Total Planned Expenditures in the Budget through Fiscal 2015</i>					<i>\$125,880,996</i>

HIX: Maryland Health Benefit Exchange Eligibility System
SHOP: Small Business Health Options Program

Source: Maryland Health Benefit Exchange; Department of Legislative Services

As discussed above, especially in connection with IT contract spending, it is impossible to say with any certainty what the MHBE budget will support in either fiscal 2014 or 2015, whether the proposed funding levels are adequate, and when more certainty will emerge. It is also unclear the extent to which the solutions proposed by the Administration will impact the proposed funding streams being utilized by MHBE to cover costs, in particular, the claiming of federal Medicaid funds.

Given this uncertainty, DLS recommends:

- **Budget bill language requiring MHBE to submit quarterly budget reports detailing actual and proposed spending in a format to be agreed upon between MHBE and DLS.**
- **Budget bill language requiring the Department of Information Technology (DoIT) to submit bi-monthly reports on the progress of remediating/replacing the HIX as it impacts both QHP and Medicaid enrollment and Medicaid redeterminations.**
- **Language is added to the Budget Reconciliation and Financing Act of 2014 providing that, notwithstanding any procurement rules adopted by MHBE, the Secretary of DoIT has the authority to designate any MHBE IT project as a major IT development project, with any such projects subject to the standard State procurement rules and DoIT oversight.**

Recommended Actions

1. Add the following language:

Provided that \$1,000,000 of the special fund appropriation made for the purpose of administration and general operations in the Maryland Health Benefit Exchange (MHBE) may not be expended until:

- (1) MHBE submits to the budget committees the first of fiscal 2015 quarterly budget reports detailing actual expenditures of prior year encumbrance, actual year-to-date expenditures, and how proposed expenditures are to be spent. These quarterly budget reports shall be submitted within 15 days of the end of each quarter beginning July 1, 2014, and will be in a format agreed upon between MHBE and the Department of Legislative Services.
- (2) The Department of Information Technology (DoIT) submits to the budget committees the first of bi-monthly reports on the progress in remediating/replacing the MHBE Eligibility System both in terms of the impact of enrollment into qualified health plans, enrollment into Medicaid, and Medicaid re-determinations. These bi-monthly reports shall be submitted within 15 days of the end of each bi-monthly period beginning July 1, 2014, and will be in the format used by DoIT for its year-end major information technology development project report.

The committees shall have 45 days to review and comment on the initial reports from MHBE and DoIT. Funds restricted pending the receipt of the initial reports may not be transferred by budget amendment or otherwise to any other purpose and shall be canceled if the initial reports are not submitted to the budget committees.

Explanation: The language provides additional reporting from MHBE and DoIT over immediate budget expenditures and the remediation/replacement of the MHBE Eligibility System (HIX). No final strategy concerning the HIX has been decided upon by the Administration. The language will allow for a degree of heightened oversight once that decision has been made.

Information Request	Authors	Due Date
Quarterly budget reports	MHBE	15 days after the end of each quarter beginning with July 1, 2014
Bi-monthly reports on the HIX remediation/replacement	DoIT	15 days after the end of each bi-monthly period beginning with July 1, 2014

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	<u>Amount Reduction</u>	
2. Reduce federal grant funding that can be back-filled by existing grant funds made available by not making awards under the Connector Performance Incentive Program. Given current enrollment data, incentives should not be reached in 2014. Not making these awards will free up the federal grant funds for other expenditures.	\$ 1,000,000	FF
Total Reductions to Fiscal 2014 Deficiency	\$ 1,000,000	

Current and Prior Year Budgets

Current and Prior Year Budgets Maryland Health Benefit Exchange (\$ in Thousands)

	<u>General Fund</u>	<u>Special Fund</u>	<u>Federal Fund</u>	<u>Reimb. Fund</u>	<u>Total</u>
Fiscal 2013					
Legislative Appropriation	\$1,890	\$0	\$24,638	\$0	\$26,528
Deficiency Appropriation	6,121	0	21,358	0	27,480
Budget Amendments	0	15	26,990	0	27,005
Reversions and Cancellations	-1	-4	-27	0	-32
Actual Expenditures	\$8,010	\$11	\$72,960	\$0	\$80,981
Fiscal 2014					
Legislative Appropriation	\$14,141	\$0	\$70,774	\$0	\$84,915
Budget Amendments	0	0	19,616	0	19,616
Working Appropriation	\$14,141	\$0	\$90,390	\$0	\$104,531

Note: The fiscal 2014 working appropriation does not include deficiencies or contingent reductions. Numbers may not sum to total due to rounding.

Fiscal 2013

The fiscal 2013 legislative appropriation for MHBE was increased by almost \$55.5 million. Of this amount, \$27.5 million was added through deficiency appropriations, including:

- \$3.9 million (\$2.2 million in general funds and \$1.7 million in federal funds) to fund:
 - additional salary requirements for 33 new regular full-time equivalents created by the Board of Public Works (BPW) in September 2012 (\$601,000 in federal grant funds);
 - a wide variety of advertising and outreach activities (\$766,000 from Medicaid – \$383,000 of each general and federal funds);
 - various studies, including billing collection, continuity of care, and cost allocation (\$366,000 from Medicaid – \$183,000 of each general and federal funds); and
 - navigators (\$1.0 million from Medicaid – \$500,000 of each general and federal funds, and an additional \$1.16 million in general funds).
- \$23.6 million in Medicaid funds (\$3.9 million in general funds and \$19.7 million in federal funds) for what are broadly considered IT-related activities, specifically:
 - \$9.1 million (\$0.9 million in general funds and \$8.2 million in federal funds) for ongoing development of the HIX;
 - \$6.9 million (\$0.7 million in general funds and \$6.2 million in federal funds) for legacy and other State system interoperability with the HIX;
 - \$2.8 million (\$0.3 million in general funds and \$2.5 million in federal funds) for the HIX IV&V;
 - \$1.3 million (\$0.65 million of each general and federal funds) for the Consolidated Service Center; and
 - \$3.5 million (\$1.4 million in general funds and \$2.1 million in federal funds) to support a variety of other activities including testing related to the CARES, navigator credentialing, the HIX consumer support, and kiosk installation.

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The appropriation was further increased by \$27.0 million (all federal funds) through budget amendments. The key increases included:

- Just over \$5.6 million in increased operating expenditures. Just under \$3.3 million in operating expenditures directly related to cover salaries and associated expenses for 33 newly created positions approved by BPW in September 2012. These positions supplemented the 9 employees currently at MHBE and reflect the need to staff-up ahead of the official opening the HIX for enrollment on October 1, 2013.

Other major increases in operating expenditures included \$1.1 million in contract funding for outreach and marketing activities, \$500,000 in consulting fees, and \$260,000 for legal support through the Office of the Attorney General.

- Just over \$21.3 million for various IT-related activities including the design and maintenance of the SHOP, interoperability activities between the HIX and other State information technology systems, the HIX IV&V, data management and support systems, the consolidated service center, and customer kiosk installation and set-up.

Finally, the fiscal 2013 appropriation was reduced by \$32,000 in small reversions and cancellations.

Fiscal 2014

To date, the fiscal 2014 legislative appropriation for MHBE has been increased by \$19.6 million, all federal funds. Of this amount, \$111,000 relates to the fiscal 2014 COLA, increments, and annual salary review increases approved during the 2013 session but not included in the fiscal 2014 allowance. The remainder, just over \$19.5 million, is funding available from additional federal Level 2 Health Exchange Establishment grant awards made to MHBE in August 2013 (\$13.6 million) and September 2013 (\$11.1 million) bringing the total Level 2 grant award to \$147.7 million.

Of the additional \$19.5 million increased appropriation:

- \$2,658,060 is for additional outreach and marketing;
- \$13,798,615 are for assister services (services that help individuals enroll in insurance coverage through MHBE); and
- \$3,048,421 for training in the use of MHBE IT applications.

Audit Findings

Audit Period for Last Audit:	Statewide Review of Fiscal 2013 Close-out Transactions as it relates to the Maryland Health Benefit Exchange
Issue Date:	January 2014
Number of Findings:	1
Number of Repeat Findings:	0
% of Repeat Findings:	n/a
Rating: (if applicable)	n/a

Finding 1: MHBE encumbered unused general fund appropriations totaling \$1,660,000 so that the funds could be retained and used for contractual agreements entered into during fiscal 2014. On June 30, 2013, MHBE did not have any obligations, such as approved contracts, to support the encumbrance of these appropriations. The funding was reverted as part of the Governor’s fiscal 2015 budget plan.

**Object/Fund Difference Report
Maryland Health Benefit Exchange**

<u>Object/Fund</u>	<u>FY 13 Actual</u>	<u>FY 14 Working Appropriation</u>	<u>FY 15 Allowance</u>	<u>FY 14 - FY 15 Amount Change</u>	<u>Percent Change</u>
Positions					
01 Regular	62.00	72.00	72.00	0.00	0%
Total Positions	62.00	72.00	72.00	0.00	0%
Objects					
01 Salaries and Wages	\$ 2,007,610	\$ 6,807,132	\$ 6,967,408	\$ 160,276	2.4%
03 Communication	98,509	146,570	249,128	102,558	70.0%
04 Travel	21,910	194,040	187,680	-6,360	-3.3%
08 Contractual Services	76,244,968	74,380,155	46,925,279	-27,454,876	-36.9%
09 Supplies and Materials	37,620	15,235	16,600	1,365	9.0%
10 Equipment – Replacement	0	0	8,200	8,200	N/A
11 Equipment – Additional	53,715	18,000	0	-18,000	-100.0%
12 Grants, Subsidies, and Contributions	2,159,999	22,438,615	17,076,210	-5,362,405	-23.9%
13 Fixed Charges	356,787	530,960	597,461	66,501	12.5%
Total Objects	\$ 80,981,118	\$ 104,530,707	\$ 72,027,966	-\$ 32,502,741	-31.1%
Funds					
01 General Fund	\$ 8,010,253	\$ 14,140,600	\$ 15,513,882	\$ 1,373,282	9.7%
03 Special Fund	11,325	0	13,000,000	13,000,000	N/A
05 Federal Fund	72,959,540	90,390,107	43,514,084	-46,876,023	-51.9%
Total Funds	\$ 80,981,118	\$ 104,530,707	\$ 72,027,966	-\$ 32,502,741	-31.1%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.

Fiscal Summary
Maryland Health Benefit Exchange

<u>Program/Unit</u>	<u>FY 13 Actual</u>	<u>FY 14 Wrk Approp</u>	<u>FY 15 Allowance</u>	<u>Change</u>	<u>FY 14 - FY 15 % Change</u>
01 Maryland Health Benefit Exchange	\$ 12,498,668	\$ 39,427,289	\$ 29,345,243	-\$ 10,082,046	-25.6%
02 Major Information Technology Development Projects	68,482,450	65,103,418	42,682,723	-22,420,695	-34.4%
Total Expenditures	\$ 80,981,118	\$ 104,530,707	\$ 72,027,966	-\$ 32,502,741	-31.1%
General Fund	\$ 8,010,253	\$ 14,140,600	\$ 15,513,882	\$ 1,373,282	9.7%
Special Fund	11,325	0	13,000,000	13,000,000	n/a
Federal Fund	72,959,540	90,390,107	43,514,084	-46,876,023	-51.9%
Total Appropriations	\$ 80,981,118	\$ 104,530,707	\$ 72,027,966	-\$ 32,502,741	-31.1%

Note: The fiscal 2014 appropriation does not include deficiencies. The fiscal 2015 allowance does not include contingent reductions.